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November 15, 2004

VIA HAND DELIVERY

Pat Miller, Chairman
C/O Sharla Dillon, Docket Manager
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37219

Re: Chattanooga Gas Company Actual Cost Adjustment (ACA)
Audit; Docket Number 03-00516

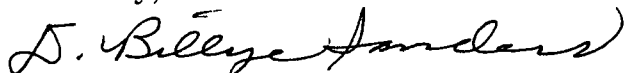
Response of Chattanooga Gas Company to the Staff's
November 5, 2004 Reply and
Motion in Opposition to the Consumer Advocate and
Protection Division's Petition to Intervene

Dear Chairman Miller,

Enclosed you will find the original and 13 copies of:

1. the Response of Chattanooga Gas Company to the Staff's November 5, 2004 Reply and;
2. A Motion in Opposition to the Consumer Advocate and Protection Division's Petition to Intervene.

Sincerely,



D. Billye Sanders
Attorney for Chattanooga Gas
Company

DBS/hmd

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November 15, 2004

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cc: Archie Hickerson
Bryan Batson
Steve Lindsey
Elizabeth Wade, Esq.
Jeff Brown, Esq.

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

November 15, 2004

IN RE:

**CHATTANOOGA GAS COMPANY
ACTUAL COST ADJUSTMENT AUDIT**

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Docket No. 03-00516

**MOTION IN OPPOSITION TO THE CONSUMER ADVOCATE AND
PROTECTION DIVISION'S PETITION TO INTERVENE**

Comes Now Chattanooga Gas Company ("CGC" or the "Company") and respectfully submits the following Motion in Opposition to the Consumer Advocate and Protection Division's Petition to Intervene and convene a contested case.

1. On November 9, 2004 the Consumer Advocate and Protection Division (CAPD) filed a motion to intervene in this docket and convene a contested case. As is evident from the motion, the CAPD did not consider or was unaware of the Tennessee Regulatory Authority (TRA) Staff's November 5, 2004 revisions to its original recommendations that were issued on June 9, 2004. Instead of basing its motion on the revised recommendations, the CAPD utilized the original recommendations and did not consider the additional information provided to the Staff with the Company's July 9, 2004 response.

2. As stated in the Staff's November 5, 2004 filing, (1) the Staff has chosen not to pursue sanctions or penalties; (2) the Staff is prepared to accept the Company's method of supporting the reasonableness of the payments under the agreement; and (3) and the

Staff accepts that the Company implemented a tracking system on January 1, 2003.

Moreover, the CAPD's request states that "the TRA, at a minimum, should support the proposed staff audit." Petition at p. 3. As stated in its July 9, 2004 response, the Company does not object to the engagement of a consultant to assist the Staff in an audit if the TRA determines that additional expertise is needed to accomplish future audits.

3. The only remaining issue in this docket is whether CGC's tariff should be amended to include affiliate rules relating to the selection of an asset manager. While CGC does not believe such rules are necessary, if the TRA decides to investigate such an option, CGC believes those issues would be better addressed in a separate generic docket. In fact, during the recent Chattanooga Gas Company rate case (Docket 04-00034) the Directors discussed the opening of a generic docket to address asset management agreements.

4. Accordingly, since the only remaining Staff recommendation relates to affiliate guidelines for the selection of an asset manager, it is unnecessary for the CAPD to intervene or for the TRA to convene a contested proceeding. Rather, if the TRA decides to consider such rules, it would be more appropriate to close this docket and convene a separate generic proceeding that addresses the asset management agreements on a generic basis.

CONCLUSION

Wherefore, CGC respectfully requests that the TRA deny the CAPD's Petition to Intervene.

Respectfully submitted,

Chattanooga Gas Company

By: *D. Billye Sanders*
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Attorney for Chattanooga Gas Company

CERTIFICATE OF SERVICE

I, hereby certify that on this 15th day of November, 2004, a true and correct copy of the foregoing was delivered by hand delivery or U.S. mail postage prepaid to:

Paul Summers
Attorney General
Vance Broemel
Assistant Attorney General
Office of Attorney General
Consumer Advocate and Protection Division
2nd Floor
425 5th Avenue North
Nashville, TN 37243-0491

Mailing address:
P.O. Box 20207
Nashville, TN 37202

D. Billye Sanders
D. Billye Sanders, Esq.

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

November 15 , 2004

IN RE:

**CHATTANOOGA GAS COMPANY
ACTUAL COST ADJUSTMENT AUDIT**

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Docket No. 03-00516

**RESPONSE OF CHATTANOOGA GAS COMPANY TO THE STAFF'S
NOVEMBER 5, 2004 REPLY**

Chattanooga Gas Company ("CGC" or the "Company") respectfully submits the following response to the Tennessee Regulatory Authority (TRA) Staff's November 5, 2004 Reply in the above-captioned docket.

CGC appreciates the TRA Staff's thorough review of its July 9, 2004 response, and the Staff's willingness to revise its recommendations based upon that review. Significantly, a review of the Staff's Reply reveals that four of the five outstanding issues have been resolved. The final issue to be resolved is whether the TRA should require CGC to amend its tariff to include affiliate rules regarding the selection of an asset manager. As is more fully discussed below, CGC remains opposed to that recommendation.

CGC responds to the Staff's revised recommendations as follows:

Staff Recommendation #1:

Sanctions and/or penalties: Based on the Company's responses, the Staff chooses not to pursue its recommendation of penalties against the Company. However, this does not mean that Staff is in agreement with the Company that documentation of affiliated transactions relative to the IMCR tariff was not needed.

Company Response:

Chattanooga Gas Company appreciates the Staff's change in position relative to sanctions and/or penalties. As explained in the Company's previous response to Staff's recommendation, the Company, acting in good faith, attempted to keep the Staff fully informed relative to the operations under the agreement that was in place from May 1, 2001 through December 2002.

Staff Recommendation #2:

Amount of refund: The Staff is prepared to accept the Company's method of supporting the "reasonableness" of its payments under the Agreement. However, the tariff contemplated 50% of actual gas sales. Due the fact that the Company (though its Agreement with Sequent did not track these transactions, Staff cannot assure the Directors the customers of Chattanooga have received their fair share of profit margin absent an audit of the transactions that took place).

Company Response:

Again, the Company appreciates the Staff's acceptance of the analysis that shows the sharing under the agreement was reasonable. The Company notes that Sequent was required to track transactions for two CGC affiliates during this time period in accordance with the sharing provisions of their respective asset management agreements. Under these agreements, Sequent shared approximately fifty percent of the gain from transactions using the utility's assets. An analysis of the sharing under these agreements reveals that market conditions differed greatly in 2002 and 2003 and that the resulting amount realized and shared increased greatly in 2003 over 2002, just as the CGC sharing increased in 2003.

Staff Recommendation #3:

Tracking system: Staff accepts that a system is now in place to track all transaction made by Sequent using Chattanooga's assets. The Staff will, in its next audit, review these transactions to verify the amounts credited to customer under the revised IMCR tariff.

Company Response:

The tracking system implemented effective January 1, 2003 will document the gain from all transactions that are supported by CGC's gas supply assets in accordance with the revised IMCR tariff provision effective January 1, 2003. The Company looks forward to working with the Staff in its next review.

Staff Recommendation # 4:

Affiliate rules: As stated in the Staff's response to the Company regarding Finding #3, Staff strongly recommends that the Authority amend Chattanooga's tariff to include affiliate rules governing the selection of an asset manager.

Company Response:

The Company does not believe that it is appropriate to modify CGC's tariff to include affiliate rules governing the selection of an asset manager. In fact, the current arrangement provides protections for CGC's customers and the TRA that far exceed any potential benefits resulting from bidding the agreement. First, the current arrangement ensures that customers benefit from the asset manager's ability to maximize profits. Under the present provision, 50% of the gain from all non-jurisdictional transactions that are dependent on CGC's gas supply assets is shared with ratepayers. The gain realized from such transactions is dependent on the volatility of the market and can vary greatly from year to year. The present procedure allows such an increase in the gain to be captured for the benefit of the customer. Under a bid arrangement as addressed in the Staff's response, the result would likely be an agreement similar to the one that was in

place during the period of May 1, 2001 through December 31, 2002, to which the Staff now objects. The customers would receive a fixed payment that would not reflect a change in the conditions that produce increased gains from the use of the assets. As previously addressed in CGC's earlier response, the Company entered into an agreement that provided it with a fixed payment based on the results from recent periods' off-system sales. When the Company recognized that conditions were changing and that there was potential for additional benefit to be captured, the Company terminated the agreement and required a 50/50 sharing of the gain from all non-jurisdictional transactions.

Second, the current arrangement ensures transparency. Under the current procedure records are being maintained that allow all of the non-jurisdictional transactions to be tracked, reviewed and analyzed by the TRA Staff during its annual audit. Under a fixed fee arrangement tracking would not be necessary and the records maintained by a non-regulated entity would not necessarily be available to the Staff.

Third, under the current arrangement CGC retains operational control of its assets, including the ability to recall any of its assets at any time if needed for firm customers. A non-affiliate would not necessarily provide this safeguard.

However, if the TRA believes that affiliate rules are necessary, CGG believes it would be more appropriate to address this issue in separate generic docket that includes all gas companies. In fact, during CGC's recent rate case, Docket 04-00034, the Directors discussed opening a separate docket to address asset management agreements on a generic basis. Such a proceeding would ensure that all interested parties have an opportunity to comment and that all companies are treated consistently.

Staff Recommendation #5:

Outside Consultant: Staff again strongly recommends that the Authority approve the engagement of an outside consultant to assist in the audits of Chattanooga Gas's Actual Cost Adjustment

Company Response:

If the TRA determines that its Staff needs assistance of a consultant with additional expertise to properly complete a review of the ACA filing required under TRA Rule 1220-4-7-.03 (2), the Company does not object to the engagement of a qualified consultant to supplement the Staff. The Company, however, believes that it should be an active participant in the selection of such a consultant and that the consultant should be prohibited from disclosing confidential third party and/or trade secret data. Further, CGC does not object to the method of paying for and recovering the associated costs as the Staff proposed in the audit report.

CONCLUSION

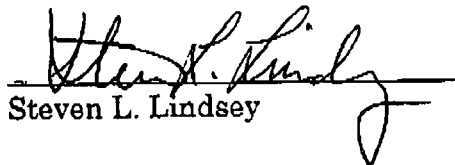
CGC respectfully requests that the TRA accept the Staff's revised recommendation Numbers 1-3. Further, CGC does not oppose revised recommendation Number 5. Finally, CGC requests that the TRA reject revised recommendation No. 4. However, if the TRA decides to accept this recommendation, CGC believes it would be more appropriate to open a separate generic proceeding that includes all gas companies in order to address this issue consistently.

VERIFICATION


STATE OF TENNESSEE)

COUNTY OF HAMILTON)

I, Steven L. Lindsey, being duly sworn state that I am the Vice President – Operations of Chattanooga Gas Company, that I am authorized to make this verification of behalf of Chattanooga Gas Company; that I have read the foregoing Response of Chattanooga Gas Company to the Staff's November 5, 2004 Reply in Docket No. 03-00516 and know the content thereof; that the same is true and correct to the best of my knowledge, information and belief.


Steven L. Lindsey

Sworn and subscribed before me this 12th day of November, 2004


Notary Public

My Commission Expires : Notary Public, DeKalb County, Georgia
My Commission Expires Nov. 12 2008

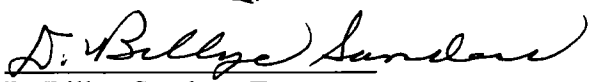


CERTIFICATE OF SERVICE

I, hereby certify that on this 15th day of November, 2004, a true and correct copy of the foregoing was delivered by hand delivery or U.S. mail postage prepaid to:

Paul Summers
Attorney General
Vance Broemel
Assistant Attorney General
Office of Attorney General
Consumer Advocate and Protection Division
2nd Floor
425 5th Avenue North
Nashville, TN 37243-0491

Mailing address:
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Nashville, TN 37202


D. Billye Sanders, Esq.